

**Santa Fe Energy Resources, Inc.**

March 3, 1998



Mr. David S. Guzy  
Chief, Rules and Regulations Staff  
Minerals Management Service  
Royalty Management Program  
Building 85  
Denver Federal Center  
Denver, CO 80225

RE: Supplementary Proposed Rule on Crude Oil Valuation (February 6, 1998)

Dear Mr. Guzy:

During the rule making process, the MMS has assumed that the exercise of all non-competitive calls are at below market prices; therefore, MMS has proposed that a producer must value its federal royalty on an index basis. It is suggested that the MMS review the August 1997, joint comments of the DPC and IPAA concerning calls.

Specifically, the MMS assumption that non-competitive calls result in below market prices is not necessarily correct in that many producers are able to negotiate a market price for leases where a non-competitive call is exercised. The producer should have the right, in such cases, to demonstrate that the "non-competitive call" sale is a fair market price.

The verification that a sale is market priced could be demonstrated by the producer as follows: by providing comparable arm's length sales in the field or area, and/or by the offers to purchase by third parties that the "non-competitive call" purchaser has met or exceeded. In the absence of any of these benchmarks, the MMS could use sales data of comparable sales in the area by other producers to judge the acceptability of the price received

Subjecting producers to an index system without first allowing for demonstration of a market price is arbitrary and unfair.

Very truly yours,

A handwritten signature in dark ink, appearing to read "H. John Munsch".

H. John Munsch  
Manager, Raw Material Supply

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